

## STAFF REPORT

**DATE:** June 10, 2014  
**TO:** City Council  
**FROM:** Gene Rogers, Interim City Manager  
Yvonne Quiring, Assistant City Manager/ASD Director  
**SUBJECT:** Presentation of the FY 2014-2015 Proposed Annual Budget

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### **Recommendation:**

1. Receive the introduction of the FY 14/15 Proposed Annual Budget.
2. Receive department budget presentations.
3. Provide direction to staff about any informational needs or budget issues.

### **Fiscal Impact:**

The Proposed Annual Budget represents the All Funds proposed spending authority for the fiscal year beginning July 1, 2014 through June 30, 2015 in the amount of \$196,146,382. Of this amount, the General Fund constitutes \$48,133,841.

### **Background:**

The budget calendar calls for introduction of the FY 14/15 Proposed Annual Budget at this Council meeting. Copies of the Proposed Annual Budget document were distributed to City Council and public on May 30. Copies can be found at the Chamber of Commerce, Yolo County Library, Davis Senior Center, City Clerk's Office and on the City website (<http://cityofdavis.org>).

The Annual Budget is the primary policy document adopted by the Council that establishes services levels and capital projects to be provided to the community by its city government. It establishes the financial and human resources devoted to accomplishing community goals and objectives as reflected by the City Council. It provides a logical structure to organize its various programs, projects and other resources. It provides a sound system for control of its revenues and expenses. Finally, it is a document that is widely available to the public and others interested in the operations of city government.

The FY 14/15 budget preparation process was initiated with City Council in November, which is about five months earlier than normal. This was due to the projected \$5 million General Fund "structural budget deficit," a situation that assumes service levels and their cost structure remain fixed with no significant new source of revenue.

Over the past five months there has been considerable outreach with six public meetings and more than two dozen meetings with community and business leaders. The consensus was that the city needs to have long-term financial strategy which would include, but not be limited to,

continuing to pursue cost-control measures; investigating alternative revenue sources and supporting economic development activities which are compatible with community values.

This will be the first of two City Council meetings scheduled to discuss the Proposed Annual Budget. It should be noted that the Finance and Budget Commission met on June 9 and its feedback, if any, will be presented to Council.

Staff will provide a general budget overview followed by short presentations by each department head. The presentations are intended to provide the City Council and community with key information about the budget and provide opportunities for dialogue and discussion of budget issues and priorities.

City Council action related to adoption of the Proposed Annual Budget is scheduled for June 24<sup>th</sup>. The Adopted Budget will then become effective with the beginning of the new fiscal year which is July 1<sup>st</sup>, 2014 and run through June 30, 2015.

## **Discussion**

### **½ Cent Sales Tax, Measure O**

In order to address the general fund's substantial budget deficit Council placed on the ballot of the state primary/municipal election a measure increasing the local sales tax from ½ cent to 1 cent. The measure passed, thus the sales tax will be collected beginning second quarter of the fiscal year. In FY 14/15, it is projected to raise \$2.7 million for the general fund of the city. In FY 15/16 the amount is projected to be \$3.6 million, This difference is attributable to the unavoidable delay for implementing the new sales tax collections in FY 14/15.

The general fund budget was prepared assuming the tax measure would not be in effect, thus it indicates a projected deficit of \$4.2 million in FY14/15. If Measure O had failed significant cuts in operating expenses, including potential lay-offs, were pre-planned to be initiated in October. Since Measure O passed, however, those cuts will not be enacted.

It is important to note that in Mayan analysis of the current FY13/14 budget projected that the general fund "fund balance" (reserve) would end the year at \$5.2 million and projections into FY14/15 identified that the reserve would be almost liquidated by the end of FY14/15 unless corrective action was taken. Among other things, staff recommended cuts of \$1.2 million to reduce the deficit to close the gap somewhat.

In April Council authorized \$1.2 million in cuts, with no layoffs, to be implemented in FY/14/15 budget, which will be the case That leaves a projected \$4.2 million deficit. Though on an annualized basis the new sales tax is expected to produce \$3.6 million, given the required implementation delay, only \$2.7 million will be available. With all of this taken into consideration, the deficit for FY14/15 is now projected at \$1.5 million.

Within the budget document there is 5 year projection that should be taken into consideration. While long term budget projections are as much art as science, they are valuable in determining trends and providing an early alert about potential future budget issues so early course correction

can be taken if needed. To summarize the long term projection, assuming the base budget proposed for FY14/15 is maintained throughout the 5 year projection period, and including the new sales tax revenue, the current \$5.2 million reserve will be virtually extinguished in the 5<sup>th</sup> year of the projection. (Without the sales tax increase, the reserve would virtually be gone by the end of the FY14/15.) It must be noted that this assumes that the base budget going into the FY14/15 is maintained as is throughout the course of the projection period. The projection doesn't contemplate new revenue sources, increased level of service or increased funding for maintenance or capital projects. Nor does it contemplate reductions in operating costs, reductions of service levels or changes in discretionary allocations. To a degree, some of these changes are likely to occur over the projection period but they are not predictable. For example, it is improbable that the reserve will be allowed to be extinguished and thus it is likely that more expense cuts would be enacted before that occurs.

### General Fund Reserve

As noted above, there is a projected FY14/15 general fund budget deficit of \$1.5 million. If this is the end result of FY14/15, which should be assumed, then the general fund reserve will dip to \$3.8 million or 10% of revenues excluding fees and grants. Council policy is to maintain a general fund reserve of 15% of its annual general fund revenues, not including fees and grants. The existing reserve of \$5.2 million is 13%. Fifteen percent would be \$5.7 million.

Even though the Proposed Annual Budget includes the revenues from the increased sales tax, the fact is a deficit remains. Therefore staff will be working on additional initiatives to cut costs, increase efficiency, and bring in more revenues through grants and more efficient collection of user fees. It is a reasonable goal to target that in FY14/15 this deficit could be reduced by at least half without layoffs, which would save \$750,000 and end the year with a reserve of about \$4.5 million. To the extent that any changes in expense reductions or revenue increases are sustainable over multi-years—for example increases in fee collections—then the projected decline of the reserves would be diminished in the 5 year projection.